

I would first like to thank Mrs. Kelly and the chairman of the full committee, Mr. Oxley, for convening this hearing, and also for the staff on the committee for doing yeoman's work in preparation of today's discussion.

Madam Chairman, many of us in the Cleveland area were startled when we read that a broker for Lehman Brothers, Frank Gruttadaria, had fled town leaving a note and computer disk for authorities admitting to bilking the firm's clients out of an estimated \$300 Million.

His victims ranged from some very wealthy folks to moderate income people who were investing for their retirement years. By maintaining a desktop computer, setting up a phony post office box, mailing fraudulent statements, and juggling funds, it appears that Mr. Gruttadaria was able to craft a ponzi scheme that lasted for 15 years and only collapsed because of a cash call on a large account and the persistence of Golda Stout of Elgin, Illinois, who we will hear from today.

Some will come before the subcommittee today and say that this was one very crooked broker gone bad and while it's unfortunate, there are no systemic difficulties or problems that require attention by this or any other committee. That might be the case if there were not some historical context and warning signals marking Mr. Gruttadaria's career with S.G. Cowen and Lehman:

1. In 1993 in response to a complaint, the SEC discovered that Gruttadaria was churning an account of another Illinois woman- turning a \$90k account over 18 times, with losses of \$80k but commissions of \$39k. No action was taken.

2. In 1998, Cowen was fined by the NYSE \$380,000 for activity on accounts in Boston and Cleveland, including activity by Gruttadaria, but apparently no red flags were raised.

3. At the same time Lehman was negotiating the purchase of Cowen's retail business, Lehman was aware of a scheme by one its brokers, Ahmed Daouk, who maintained a desktop computer, set up phony post office boxes, mailed fraudulent statements and juggled funds to steal from many clients, yet, their due diligence in examining the Cowen business failed to find the exact same conduct by Mr. Gruttadaria.

4. Mr. Gruttadaria's supervising partner at Lehman, I understand, earned a base salary of \$450k, received bonuses of \$8M and stock options of \$29M during the supervision of Mr. Gruttadaria's operation, and I do think, with all due respect to our friends from Wall Street, that we need to examine if the Alfred E. Neuman motto of 'What me worry?' prevailed.